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S E C R E T SECTION 01 OF 03 MANAMA 000747

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TAGS: [KNNP](#) [PREL](#) [PARM](#) [MNUC](#) [ECON](#) [IR](#) [BA](#) [REGION](#)

SUBJECT: AMBASSADOR'S MEETING WITH CENTRAL BANK GOVERNOR
AND AHLI UNITED BANK

REF: A. BAGWELL-SIMPSON JULY 31 EMAIL

[1](#)B. MANAMA 714

[1](#)C. MANAMA 692

Classified By: Ambassador William T. Monroe, reasons 1.4(b) and (d).

SUMMARY

[1](#)1. (S) The Ambassador July 31 cautioned Central Bank of Bahrain (CBB) Governor Miraj and Ahli United Bank (AUB) CEO El-Labban regarding the inherent risks associated with Iranian banking relationships. The Ambassador also noted that Treasury Undersecretary Stuart Levey intends to visit Bahrain in August to engage Miraj and El-Labban on this issue. Miraj and El-Labban responded that a Future Bank branch to be opened in Iran's Kish Island Free Zone would not contravene UN Security Council Resolutions directed against financial institutions supporting Iran's nuclear weapons program. Bahrain remained in full compliance of UNSCRs 1737 and 1747. El-Labban said that while Future Bank fit with AUB's stated strategic vision and offered AUB a foothold in Iran's lucrative financial market, it represented a small percentage of AUB's interests. The Kish Island branch was a smaller element still. AUB would divest itself of its 1/3 Future Bank interest before jeopardizing its access to the dollar clearing system. He said AUB does not seek random Iranian business. Subsequently, a CBB official clarified that AUB was seeking approval for a separate transaction involving the acquisition of an Iranian bank; this transaction was not raised in the discussion. Meanwhile, the International Bank of Qatar may be preparing to acquire a controlling interest in AUB. End Summary.

UNSCR COMPLIANCE HIGHLIGHTED

[1](#)2. (S) The Ambassador called on CBB Governor Rashid Al Miraj and AUB Group Chief Executive Officer Adel El-Labban July 31 to engage in follow-up discussions on Ahli United's participation in the prospective opening of a Future Bank branch in Iran's Kish Island Free Zone. Miraj said he felt that after his last meeting with the Ambassador, it would be useful to allow El-Labban to clear up any U.S. concerns. The Ambassador delivered Ref. A points, emphasizing the inherent risks associated with Iranian banking relationships.

[1](#)3. (C) The Ambassador informed Miraj and El-Labban of U.S. Treasury Undersecretary for Terrorism and Financial Intelligence Stuart Levey's intention to visit Bahrain in the

coming month to meet with them. Miraj welcomed the visit and said he would be available throughout the month of August. El-Labban replied that he would be abroad but said an appropriate executive should be available to represent him.

¶4. (C) Miraj said that for his part, he was satisfied that Bahrain was in full compliance of UNSCRs 1737 and 1747. "We implement such resolutions immediately. Based on our regular communication with our institutions, we are in compliance." Miraj added that Bahrain could not allow anything to jeopardize the country's standing as a well-regulated, respected financial jurisdiction. "We in Bahrain cannot afford and will not tolerate anything that will compromise our standing. We will not tolerate any mistakes. That is clear for us and we make it clear to all of our institutions."

AUB SHOWS MOST, BUT NOT ALL IRANIAN CARDS

¶5. (C) El-Labban said AUB had been established seven years ago with the intent of developing a regional financial presence, seeking to establish itself in countries overlooking the Gulf. "We stated our intentions openly." In line with AUB's regional vision, he noted that the bank has branches in Oman, Kuwait, Qatar, The United Arab Emirates and Iraq. Referring to Iraq he added, "We're glad to be there and hoping to be able to keep a presence there under such difficult conditions."

¶6. (C) El-Labban said that AUB's stated ambition to be a regional bank is what prompted the Bahrain Monetary Agency (BMA - now CBB) to approach AUB over three years ago with the news that Bank Melli and Bank Saderat, both of which had branches in Bahrain, wished to establish a joint venture in

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Bahrain. El-Labban said Future Bank was conceived as a bridge between Bahrain and Iran. "Iran is a prime market. Before the Revolution, Citibank, Deutsche Bank, many major institutions were there. After things turn around and Iran eventually opens up, they'll all be in line to come back." He said that AUB would also wish to enter, but would normally be unlikely to merit immediate consideration. However, Future Bank presented a practical entree. He reasoned that since banking in Iran is owned or dominated by the public sector, Iran would be inclined to grant expanded opportunities to banks already operating there. "The BMA had selected AUB as the local partner in the joint venture because of the bank's regional vision. Bank Melli, Bank Saderat, and AUB each hold 1/3 interest. The "Future Bank" joint venture, including five Bahraini branches and the Kish Island branch, was approved in 2004, though it was not until May 2007 that the Central Bank of Iran (CBI) had approved Future Bank's Kish Island branch. CBI would act as the branch's local regulator, while the CBB would serve as the parent regulator.

¶7. (C) (Note: Following this meeting, Econoff consulted Central Bank of Bahrain Banking Supervision Advisor to the Governor Richard Ellis to clarify the status of the CBB's approval of the Kish Island branch. Ellis had previously indicated that AUB's acquisition of an Iranian financial institution was currently pending Prime Ministerial approval (Ref. C). However, El-Labban clearly indicated that the Future Bank Kish Island branch had been approved in 2004. Ellis clarified that AUB's application to acquire an Iranian bank was a separate transaction and that the bank in question was either wholly or largely controlled by the Iranian Government. He said the information continued to be closely held and that he doubted that Miraj or El-Labban had raised it during the Ambassador's meeting. Shortly thereafter, Ellis contacted Econoff to relay that Miraj had ordered that any further inquiries regarding AUB be directed exclusively to Miraj himself. End Note.)

FUTURE BANK A SMALL, EXPENDABLE HOLDING

¶18. (C) El-Labban said the Kish Island branch was a small branch, and held a branch capital requirement of just two million dollars. It would be staffed by just 10 employees, one or two of which had already been hired. He said that despite being located in a free zone, the branch's rather isolated island location would limit its prospects. (He noted that the CBI had also granted approval for Standard Chartered Bank to open a branch there.) He also observed that, given the Kish Island branch's relatively small size, any untoward transactions would be readily apparent. In any event, a real-time data link would allow Future Bank branches in Bahrain to see the Kish Island branch's activity.

¶19. (C) El-Labban said that although AUB exercises a high level of management control over its other holdings, this was not the case with Future Bank. AUB was not a managing partner. He acknowledged serving as a director on Future Bank's board, which he said also held another director and a deputy director from AUB. He added that Future Bank maintains \$120 million in standing capital, compared to AUB's \$1.2 billion in total assets, making the point that Future Bank represents but a fraction of AUB's business. He also observed that the Future Bank joint venture had forced a contraction of Bank Saderat's holdings in Bahrain. Saderat typically books very large transactions, but any position Future Bank takes is required to be a certain percentage of capital.

¶10. (C) El-Labban said Future Bank was principally involved in the financing of businesses and pointed to Iran Petrochemical and enterprises supporting Iran's pistachio industry as typical examples. Future Bank's 2006 net profits were \$16 million, compared to AUB net profits of \$200 million. "AUB's involvement with Future Bank is not mission critical," said El-Labban. He added that even if it were, no business line would be worth harming AUB's reputation, ethics and standards. El-Labban then added that AUB would sacrifice its ties to Future Bank before losing its access to the dollar clearing system. "This is not just a management position, it's a board position."

¶11. (C) El-Labban said AUB did not seek or market for random Iranian business. AUB was currently holding \$20 to \$30 million in Iranian commercial deposits and \$68 million in

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debt from a high of \$106 million in January 2006. He said that as the result of loan repayments, this figure would drop to between \$30 and \$35 million by April 2008, with the balance coming due over the next 12 to 18 months. Most of the Iranian debt had been in the form of sovereign bonds or loans to the Iranian oil industry. "It's not trade finance and hasn't been for a while. Those lines were never really very active." El-Labban compared these figures to the size of Iranian loans and deposits booked by Germany and the UAE. "They're running balances ten times this size."

QATARIS MAY ACQUIRE AUB

¶12. (C) On speculation that the International Bank of Qatar (IBQ) might soon acquire a controlling interest, El-Labban said there had, as yet, been no official developments. He said Kuwaiti shareholders had opened their books to IBQ, but that there had been no formal due diligence. "But there is strong interest. Things could progress further."

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